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STOCKMEN ENERGY LTD.

Annual Report 1985



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PRESIDENT'S MESSAGE

As anticipated in the 1984 Annual Report the fiscal year 1985 was one of several significant corporate developments for the Company.

The first of these occurred in September 1984 with the acquisition by Stargazer Resources Ltd. of Nimbus Energy Resources Ltd. on a share for share basis. The assets of Nimbus consist primarily of a small interest in two gas wells in Texas which provide the Company with a modest revenue stream.

Following the acquisition of Nimbus, the shares of Stargazer were consolidated on a one for five basis and the Company's name was changed to Stockmen Energy Ltd. At this time, the decision was made to get the new company active in oil and gas exploration in Alberta. To this end, a private placement of 1,900,000 common shares was made, providing net proceeds of \$178,600. A petroleum geologist was hired and the Company's emphasis was placed on generation of oil and gas prospects. In light of this new emphasis on petroleum and in view of the pending expiry of the Savant Lake gold claims, previously the major asset of Stargazer, the gold claims have been allowed to expire. This is reflected in the year-end statements as a write-down of resource properties and is the main factor in the significant net loss for the year.

To provide the Company with the funds necessary for an active oil and gas exploration program, a further private placement of 700,000 flow-through and 300,000 common shares was closed in May, providing the Company with net proceeds of \$361,900 in exploration funds and \$98,700 in working capital funds respectively. To further enhance the Company's exploration program, a Joint Venture was entered into whereby up to an additional \$500,000 will be spent on a side by side basis with Stockmen in all prospects developed or entered into by the Company during fiscal 1986.

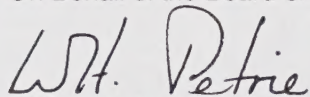
EXPLORATION

To June 30, 1985, Stockmen has participated as to 8% and 4% in two oilwells on the Hays Prospect and 15.775% in an abandonment on the Grand Forks Prospect, both in southern Alberta. In addition, the Company acquired, at no cost, a 2% Gross Overriding Royalty interest on 320 acres in the Rainbow Prospect in northern Alberta.

OUTLOOK FOR 1986

It is management's intent to proceed in a cautious manner, generating and participating mainly in those prospects where the risk is low to moderate and the potential exists for early payout and significant development if successful. By generating and putting together its own prospects, the Company is able to bring in industry participants, on a promoted basis, to assume the time consuming functions of actual operatorship and administration of drilling and producing wells. This approach is important in that it allows the Company's small staff to spend the maximum amount of time in productive, prospect-generating work that is so necessary to ensure an active and successful 1986.

On Behalf of the Board of Directors



William H. Petrie
President

CORPORATE INFORMATION

DIRECTORS

George Ramon Hugo
Calgary, Alberta
John Alexander MacPherson
Dewinton, Alberta
William Howard Petrie
Cochrane, Alberta
Robert Campbell Todd
Calgary, Alberta

OFFICERS

Jeanette Olivia Chabun
Secretary-Treasurer
George Ramon Hugo
Chairman of the Board
William Howard Petrie
President

LEGAL COUNSEL

Burnet Duckworth & Palmer
32nd Floor, 425 First Street S.W.
Calgary, Alberta T2P 3L8

BANKERS

Canadian Imperial Bank of
Commerce
309 Eighth Avenue S.W.
Calgary, Alberta T2P 2P2

REGISTRAR AND TRANSFER AGENT

The Canada Trust Company
Calgary, Alberta

AUDITORS

Dunwoody & Company
3rd Floor, 1015 Fourth Street S.W.
Calgary, Alberta T2R 1J4

EXECUTIVE OFFICES

1750, 144 Fourth Avenue S.W.
Calgary, Alberta T2P 3N4
(403) 262-8844

LISTING

Alberta Stock Exchange
Symbol: SKM

ANNUAL MEETING

The Annual Meeting of the Company will be held in the Boardroom of Burnet Duckworth & Palmer, 32nd Floor, 425 First Street S.W., Calgary, Alberta at 11:30 o'clock in the forenoon, December 11, 1985.

STOCKMEN ENERGY LTD.

(Formerly Stargazer Resources Ltd.)

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 1985

ASSETS**CURRENT**

Cash

Term deposits

Accounts receivable

Prepaid expenses

DUE FROM A DIRECTOR, note 3

FIXED, note 4

19851984

\$ 64,854	\$ 10,977
357,625	10,000
21,625	1,261
5,942	—
<u>450,046</u>	<u>22,238</u>
50,000	—
<u>199,591</u>	<u>358,774</u>
<u>\$ 699,637</u>	<u>\$ 381,012</u>

LIABILITIES**CURRENT**

Accounts payable and accrued liabilities

Advances received on share subscriptions

\$ 114,186	\$ 73,125
361,900	—
<u>476,086</u>	<u>73,125</u>

SHAREHOLDERS' EQUITY

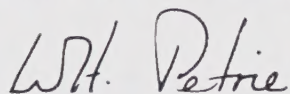
SHARE CAPITAL, note 5

DEFICIT

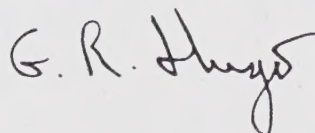
1,618,954	1,219,748
(1,395,403)	(911,861)
<u>223,551</u>	<u>307,887</u>
<u>\$ 699,637</u>	<u>\$ 381,012</u>

SIGNIFICANT ACCOUNTING POLICIES, note 2

Approved on behalf of the Board:



, Director



, Director

AUDITORS' REPORT

To the Shareholders

Stockmen Energy Ltd.

We have examined the consolidated balance sheet of Stockmen Energy Ltd. as at 30 June 1985 and the consolidated statements of income and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at 30 June 1985, the results of operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

DUNWOODY & COMPANYCalgary, Alberta
15 August 1985

CHARTERED ACCOUNTANTS

STOCKMEN ENERGY LTD.

(Formerly Stargazer Resources Ltd.)

**CONSOLIDATED STATEMENT OF
CHANGES IN FINANCIAL POSITION**

FOR THE YEAR ENDED 30 JUNE 1985

	<u>1985</u>	<u>1984</u>
SOURCE OF FUNDS		
Issue of share capital	\$ 399,206	\$ 235,000
Proceeds from sale of fixed assets	<u>—</u>	<u>1,548</u>
	399,206	236,548
APPLICATION OF FUNDS		
To operations		
Net loss for the year	483,542	911,861
Items not involving funds		
Depreciation and depletion	(16,782)	(946)
Writedown of resource properties	(360,243)	(858,924)
Loss on disposal of fixed assets	<u>—</u>	<u>(994)</u>
	106,517	50,997
Loan to a director	50,000	—
Petroleum and natural gas properties	123,655	97,227
Mining properties	5,276	5,775
Furniture and fixtures	700	—
	286,148	153,999
Purchase of Nimbus Energy Resources Ltd.	80,241	—
Working capital deficiency acquired	7,970	—
	88,211	—
Consisting of:		
Petroleum and natural gas properties	\$80,869	
Furniture and fixtures	<u>7,342</u>	
	\$88,211	
	374,359	153,999
INCREASE IN WORKING CAPITAL	24,847	82,544
Working capital (deficiency), beginning of year	(50,887)	(133,431)
WORKING CAPITAL (DEFICIENCY), END OF YEAR	\$ (26,040)	\$ (50,887)
Represented by		
Current assets	\$ 450,046	\$ 22,238
Current liabilities	(476,086)	(73,125)
	\$ (26,040)	\$ (50,887)

STOCKMEN ENERGY LTD.

(Formerly Stargazer Resources Ltd.)

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

FOR THE YEAR ENDED 30 JUNE 1985

	1985	1984
REVENUE		
Production	\$ 23,093	\$ —
EXPENSES		
Depreciation and depletion	16,782	946
General and administrative	126,976	50,997
Production	2,532	—
Interest	6,146	—
	<u>152,436</u>	<u>51,943</u>
NET LOSS FROM OPERATIONS	<u>(129,343)</u>	<u>(51,943)</u>
OTHER		
Loss on disposal of fixed assets	—	(994)
Interest income	6,044	—
	<u>6,044</u>	<u>(994)</u>
NET LOSS FOR THE YEAR BEFORE EXTRAORDINARY ITEM	<u>(123,299)</u>	<u>(52,937)</u>
EXTRAORDINARY ITEM, note 6		
Writedown of resource properties	<u>(360,243)</u>	<u>(858,924)</u>
NET LOSS FOR THE YEAR	<u>(483,542)</u>	<u>(911,861)</u>
Deficit, beginning of year	<u>(911,861)</u>	<u>—</u>
DEFICIT, END OF YEAR	<u><u>\$(1,395,403)</u></u>	<u><u>\$(911,861)</u></u>
LOSS PER COMMON SHARE		
Loss before extraordinary item	\$ (.056)	\$ (.014)
Loss	\$ (.219)	\$ (.247)

STOCKMEN ENERGY LTD.

(Formerly Stargazer Resources Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 1985

1. CHANGE OF NAME

During the year the Company changed its name from Stargazer Resources Ltd. to Stockmen Energy Ltd.

2. SIGNIFICANT ACCOUNTING POLICIES**a) Principles of consolidation**

The consolidated financial statements include the accounts of Stockmen Energy Ltd. and its wholly owned subsidiaries, Stargazer Resources, Inc., Nimbus Energy Resources Ltd. and Nimbus Energy Resources (U.S.) Inc.

b) Mining properties

The Company follows the full cost method of accounting whereby all costs relative to acquiring, exploring and developing properties are capitalized. The proceeds received for a partial disposition are credited to the costs and until the properties are abandoned, sold or placed on production, no gain or loss is recognized. The net costs of properties surrendered or abandoned are written off in the year of surrender. The costs relative to acquiring, exploring and developing properties will be depleted based on a composite unit-of-production method based on the total estimated recoverable reserves.

The values at which properties are carried may not be indicative of the underlying value of the properties, as activities of the Company are exploratory in nature at this point in time.

c) Petroleum and natural gas properties and equipment

The Company follows the full cost method of accounting for its petroleum and natural gas properties wherein all costs relative to the exploration for and development of petroleum and natural gas and related reserves are capitalized. Such

costs include lease acquisition costs, geological and geophysical expenses, lease rentals on undeveloped properties, costs of drilling both productive and non-productive wells, interest and other carrying charges, and all technical and administrative overhead directly related to exploration and development activities. No gains or losses are recognized upon the sale or disposition of reserves. Provision for depletion of the net costs is computed on the composite unit-of-production method based on proven reserves of the Company as determined by the Company and substantiated periodically by independent professional engineers.

The values at which properties are carried may not be indicative of the underlying value of the properties, as activities of the Company are exploratory in nature at this point in time.

d) **Depreciation**

Furniture and fixtures are depreciated at 20% per annum on the declining balance basis.

e) **Foreign exchange**

Foreign currencies have been translated to Canadian dollars as follows:

Non monetary items at the rate in effect at the date of the transaction and monetary items at the rate in effect at the end of the year.

3. DUE FROM DIRECTOR

The loan is non-interest bearing and matures in January, 1990.

4. FIXED ASSETS

	1985		1984	
	Cost	Accumulated Depletion and Depreciation	Cost	Accumulated Depletion and Depreciation
Petroleum and natural gas properties	\$ 204,524	\$ 15,506	\$ —	\$ —
Mining properties, including exploration thereon	—	—	354,967	—
Furniture and fixtures	15,470	4,897	7,428	3,621
	<u>219,994</u>	<u>20,403</u>	<u>362,395</u>	<u>3,621</u>
Cost less accumulated depreciation and depletion	<u>\$199,591</u>		<u>\$358,774</u>	

5. SHARE CAPITAL

Details of the Company's share capital are as follows:

(a) Authorized

50,000,000 Common shares of no par value

(b) Issued

	Number of shares	Amount
30 June 1984	3,736,181	\$ 1,219,748
Issued on acquisition of Nimbus Energy Resources Ltd.	3,000,100	70,241
Share consolidation (1:5)	(5,389,025)	
Issued on settlement of a debt	452,650	45,265
Issued for cash	2,200,000	283,700
30 June 1985	<u>3,999,906</u>	<u>\$ 1,618,954</u>

(c) Share options

At 30 June 1985, there were share purchase options outstanding as follows:

Number of shares	Price	Expiry date
54,269	\$1.00	1988
60,000	\$.50	1988
255,722	\$.30	1990

6. EXTRAORDINARY ITEM

Mining properties were written off during the year as there were no economic ore bodies found and the Company had no further plans to explore the properties.

7. REMUNERATION OF OFFICERS AND DIRECTORS

Salary and benefits of \$59,196 were paid to officers of the Company and companies controlled by them for services rendered during the year. No payments were made to directors for their services as directors.

8. INCOME TAXES

The Company has non capital income tax losses as follows:

Canadian	Year of Expiry	U.S.A.	Year of Expiry
\$ 57,000	1984	\$ 27,000 U.S.	1999
\$134,000	1985	\$695,000 U.S.	2000

The potential income tax benefits arising from these losses are not recorded in the financial statements.

